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World's Greatest Fact (for Mortgage Bankers)

And It Isn't the War, Low Mortgage Rates, FHA, Dictators, the Machine Age, Cutthroat Competition or FDR

Interview with GEN. R. E. WOOD

by Arthur Van Vlissingen

FROM time to time some statesman, economist, or philosopher brings forth with fanfare his pet explanation of the major changes occurring in this world we live in.

As a humble student of the census, let me make my nomination.

During my lifetime, which has now covered something more than 60 years, the greatest influence on the world has not been the increase in the use of machinery, has not been the development of industrial research, has not been the shift from a rural to an urban civilization. It has not been the First World War, nor the Treaty of Versailles, nor the development of totalitarian governments in the Western World.

This master influence, more important than any other and actually the cause of some of these phenomena which are sometimes mistaken for causes, is something that I have never seen mentioned for this distinction: The decline in the birth rate among the masses of the population.

When the census of 1940 is tabulated and the figures on population trends are released, there will be headaches among people who do not yet realize what is happening in the United States. We may then expect a flood of popular articles, books and speeches filled with foreboding for the nation's continuing growth.

But when the census of 1950 reaches the same stage, it is safe to predict that all thoughtful people will be really alarmed. And the census of 1960 should put an end to all uncertainty by showing a population that is static, no longer growing.

"THE first and greatest effect will be on real estate values, both rural and urban," is what Gen. Wood says about "The World's Greatest Fact"—the fact being the new trend in population growth in the United States. This article was published in Forbes and is reprinted here by permission. Gen. Wood is chairman of Sears, Roebuck & Co. and one of the world's greatest authorities on population changes and what they mean to business.

In all history there has been no other population growth comparable with our country's. From about 4,000,000 in 1790, the population grew to 122,000,000 in 1930. Two factors caused it: A high birth rate until 1915, and an enormous immigration that lasted from 1846 until 1914.

Now these factors have both been removed. Immigration is held by law to small proportions. And the other factor, natural growth through excess of births over deaths, has decreased and will decrease further.

In this article we are concerned not with the shifts in world power or the changes which it can bring to our Western Civilization, but rather with the effect of a falling birth rate upon American economic life. Specific predictions about the impact of this trend on individual businesses may best be left to those closest to the peculiarities of each business. But certain general prophecies seem safe, and some typical cases may be examined as samples of what to expect.

The first and greatest effect will be on real estate values, both rural and urban.

Cities of over 100,000, especially in the North, are no longer growing rapidly, and by 1950 many of them will be growing not at all. This will necessarily upset the basic American creed that real estate values appreciate.

Values of anything appreciate when demand increases beyond its available supply. And for a century our cities have been growing at a rate unparalleled in the rest of the world. But this country is very close to the point, if it is not already there, where at least in the larger Northern cities, demand and values in real estate will decline. There will probably be a few exceptions to

the rule, such as an occasional suburban development; but only a few.

There is no reason to expect a different trend in farm values. With agricultural discoveries of ways to make an acre produce more, and with a static or declining population to consume the crops, there is every indication that rural land prices will shrink. In fact, the "farm problem" which has afflicted our economy since the mid-twenties is largely, though not exclusively, a result of this trend.

As the Aged Increase

We already have a great increase in the number of people over 50, over 60, over 70 years of age. Their increase in proportion to total population is even greater. Sometime between 1960 and 1970, at the current rate of change, there will be more people over 45 years old than between 20 and 44.

With this shift in age brackets, total consumpion of goods is likely to be less, and certainly it will be different in kind.

Needs and purchasing habits of young people differ from those of older people. A man of 70 is not the consumer a man of 40 is, or a boy of 15. Young people are more active than their seniors, they burn up more energy, eat more food, wear out more clothing. In sporting goods—to select a random example of different needs—the youngsters use practically all of the baseball, football, basketball and tennis equipment. There may be a boom in golf clubs 20 years from now, but the more violent sports look to be in for a long-term bear market.

Young people are the ones who set up new households, requiring household equipment of all sorts, and producing children who will need everything from diapers to college educations. Young people are more likely than people of middle age to expand the homes that they have. They are more susceptible to new ideas, more receptive to new brands and new types of merchandise. This fact may, in turn, exert a marked influence on advertising volume, results and copy appeal. Reading tastes differ considerably with age, hence there may be a major change in the contents of the periodical stands and the bookstores by 1960. School books and juvenile books will have smaller markets.

There may be a small upward surge in number of children within the next few years, as those persons who were born between 1915 and 1920 marry and raise families. This merely means that we shall not get the full effect of our declining birth rate until 1950.

But the governing trend is toward fewer children in the population, which looks hopeful for neither the makers of children's clothing nor the educators and school builders. Both of their industries have passed their peaks. There are fewer children in the primary grades of all the Northern states than there were 10 and 20 years ago, though these states have 25,000,000 more people now than then. In five years, this low tide will hit the high schools, in 10 years the universities.

Economic power and markets may shift. For many years, the North imported its labor, the South bred its own. No urban population ever perpetuated itself, and there is room for thought in the consequent financial obligation of the cities toward the rural regions. The farms have always reared and educated their children to the age where they become producers, only to have them move into the cities to fill the gaps left by the cities' inability to grow under their own power.

Where the Gains Are

The fact is, the farms produce the manpower as well as the food of the cities, and if ever a satisfactory solution of the "farm problem" is reached, it must include a cash recognition of the subsidy owed to the farmers to pay for this drain on their resources.

Fourteen Southern and border states, possessing 28 percent of the total population of the United States, today contribute 51 percent of the population increase. Contrary to popular impressions, the Southern White is increasing much faster than the Southern Negro. Unless the trend of industry and population reverses itself, the South is destined to become more important both politically and economically, and will hold the hot future markets for American manufacturers. The census of 1940 will probably show that the rate of growth of Southern cities far exceeds that of most Northern and Midwestern cities.

Among students of population trends and their economics, there are varying opinions as to the effect, upon living standards and upon unemployment, of having a static population.

Advocates of restricted population claim that a static population will raise living standards and end unemployment. The weight of the evidence runs counter to their theories. For one thing, a substantial proportion of the employment available in the United States for 150 years has been contributed by building up productive plant to meet the consuming capacity of a growing population; how important this is to the national economy is shown in current studies of maladjustments arising from lack of demand for heavy-industry products.

Less tangible, but probably even more important, is the psychological and the competitive drive that a growing population supplies. A growing population contains a high proportion of youngsters, and the young men are the venturers into new fields which lead to economic advance. Their elders tend toward conserving what they already have, not taking long chances—and contributing comparatively few innovations and outstanding inventions.

There is another and homelier reason why a high birth rate makes for economic progress. Consider the typical personal success story of the entire period of the American Republic. Whether Father had a business or a farm, it offered too little opportunity for all six or eight of his sons. So, one of them stayed home to carry on the established institution, the others went out into the world in search of fame and fortune. Most of our conspicuously successful American enterprises arose from just such a situation.

Conservatism of Age

When a family has only one son, the boy in effect steps into his parent's shoes. This sort of thing occurring throughout the nation measurably slows down all business. And we shall see more of this as our population growth falls off still further. The spirit of individual daring, of personal venture, tends to wither and die. It seems to me entirely possible that the long duration of the depression which began in 1929 may be in large measure due to lack of resiliency, due in turn to the aging of our population.

From a political standpoint, a population passing into the older age brackets will tend toward conservatism. There will be less tendency toward far-reaching social and economic experimentation and greater emphasis on preservation of the status quo.

We have already experienced in this country the increasing emphasis on old-age pensions and similar schemes as the population ages. As the number of

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MBA Officers Confer With FHA Officials in National Capital

Mortgage Banker Suggestions Welcomed

By BYRON T. SHUTZ

STEWART McDONALD, FHA Administrator, and Clyde L. Powell and Jay Keegan, Assistant Administrators, were "at home" the morning of April 25 to MBA Vice President Dean Hill, Secretary George H. Patterson and the writer. The National Tax Conference, held that day and next, which we were there to attend, did not outrank this informal meeting in importance, and we are confident that increasingly closer cooperation between the two interests represented will follow.

The correspondence paving the way for the meeting emphasized our cooperative attitude. It is gratifying to report that we could not have been received more cordially. How closely our thinking paralleled that of the FHA leaders will appear from what follows.

Visits to local groups and correspondence with our members in all parts of the country the last seven months have highlighted certain facts and led to certain conclusions. As spokesmen for the Association, we urged, that:

1. The activities of the FHA in the future should be concentrated on the low-cost house field. It was pointed out that in nearly every city visited, a need existed for houses in this bracket. That the best results may be secured, we urged that the ceiling for Title I Class 3 loans be raised from $2,500 to $3,500 on the ground that the smaller amount is not adequate in the northern states, where heavier construction and heating plants are required. Further, that the period of the loan be extended from 15 to 20 years, since Title I Class 3 loans now are subject to the same construction requirements as Title II loans, and the consequent lowering of monthly payments would make homes in this class available to more people.

Administrator McDonald agreed in principle with these views. However, since the Title I Class 3 insurable amount is fixed by Statute, rather than by the Rules and Regulations, action by the Congress is necessary to enable this change.

2. Lending agencies should be allowed a larger fee for servicing Title I Class 3 loans.

The Administrator recognized that it costs more to service a given loan volume in units of $2,500 than in units of $5,000.

In this connection, it should be stated that the FHA is permitting the lending agency to charge an annual service fee of ½ of 1 percent in addition to 4½ percent interest and ½ of 1 percent insurance premium. As a result, the mortgagee institution in buying loans can allow its correspondents and representatives a service fee of ½ of 1 percent and yet realize a net rate of 4 percent, as compared to the 3¾ percent which many mortgagees are now receiving on Title II loans.

The ½ of 1 percent received from the mortgagee, added to the ½ of 1 percent received from the borrower, yields to the lending agency an annual service fee of 1 percent, which is ¼ of 1 percent higher than many now are receiving on Title II loans.

Thus, the net result is ¼ of 1 percent greater both to the mortgagee and to the lending agency, a differential that is needed to make a volume of loans in amounts of $2,500 and less, attractive.

3. The only need in the rental housing program of the FHA is for properties of the walk-up type in the low brackets with rentals ranging from $25.00 to $50.00 per unit per month (preferably below $40.00).

Again, the FHA officials and your representatives were in agreement. Beginning May 10, no applications for insurance on rental properties will be accepted where the rental per room per month is in excess of $13.50 except in cities of one million population or more, in which case the maximum rental may not exceed $15.00. This is a reduction from the $15.00 and $16.50 maxima prevailing up to that date. The new regulation emphasizes the necessity for maintaining low average unit rentals, preferably under $50.00 per month (less in smaller communities), and under no circumstances will applications for new construction of elevator apartments be accepted.

4. The FHA should continue aggressively the policy of insuring loans in declining areas in such volume as will reestablish and stabilize character and values.

We are glad to report that Mr. McDonald and his associates were in complete agreement on this point. Under date of May 1, an important interpretation of the recently promulgated rules and regulations, relating to the rehabilitation program, was issued. It emphasized that the program contemplates only the rehabilitation of structurally sound buildings originally designed, located and occupied for dwelling purposes and does not involve the conversion of commercial or industrial properties to residential use. Further, it pointed out that special attention should be given the rentals proposed after consummation, which should be substantially less than those charged for equivalent facilities in new construction and must meet the needs of the neighborhood.

Much has been said about cooperation between business and government. As far as a frank and friendly exchange of views and essential agreement upon fundamental questions can be said to constitute it, the conference certainly was. Our best thanks to Administrator McDonald and to Assistant Administrators Powell and Keegan for their understanding attitude.

What Will Happen Now to the FCA?

Story of the Goss Resignation and Its Significance for the Future of U. S. Farm Mortgages

WHILE public attention in recent weeks, particularly that of farm mortgage lenders, has been principally centered on the Jones-Wheeler legislation, the earlier events that preceded it constitute a major change in U. S. lending policy and one whose influences may be felt in the national economy for a long time to come. National Grange Monthly, published by the great farm organization, asks just what *is* the future of FCA and discusses the resignation of Albert S. Goss, Federal Land Bank Commissioner.

"When the news went out from Washington that Albert S. Goss had been forced to resign, the reaction in informed agricultural circles throughout the country was decidedly unfavorable to the administration.

A Planned Move

"It cannot be said that Mr. Goss' resignation was entirely unexpected. As is well known, a shake-up of considerable proportions has been under way in the FCA for the past few months. The first indications that a storm was brewing came shortly before Christmas when, after much under-cover work, with rumors flying thick and fast, Forrest F. Hill was compelled under administration pressure to hand in his resignation as Governor of the Farm Credit Administration. Dr. A. G. Black, who had been chief of marketing research in the Department of Agriculture, was appointed to fill the vacancy caused by Mr. Hill's resignation. Others who have been ousted in connection with the shake-up include Deputy Governor Gerald E. Lyons of Iowa and Peyton R. Evans, General Counsel, of Virginia.

"Mr. Goss was not in sympathy with the move merging the FCA with the Department of Agriculture, destroying the independent status of the farmers' lending agencies. Neither was he in sympathy with the policies that Secretary of Agriculture Wallace announced would henceforth be pursued by the FCA. These were the fundamental reasons why he was asked to resign.

In tendering his resignation to the President, Mr. Goss issued a public statement showing that there was a fundamental difference of opinion between him and the leaders of the administration with reference to farm credit matters."

Amplifying this statement, Mr. Goss made reference to the Jones-Wheeler bill. This measure embodies the ideas and principles upon which the Administration thinks the Farm Credit System should be operated.

"One of the fundamental objections to this measure is that it would destroy the co-operative features of the FCA and give the Department of Agriculture full and absolute control of the lending agencies that have been established for the benefit of the farmer.

" 'Basically,' said Mr. Goss, 'the differences which have arisen between the Department of Agriculture and the FCA are not matters of administration or detail, but are due to the fact that under the law the Land Banks have been lending on the basis of normal values when we have not had a normal farm income.

What Congress Did

" 'When the normal value concept was written into the law in 1933, it was recognized that borrowers could not pay interest or principal installments on the loans at the level of farm prices which then prevailed, and Congress provided a five-year term during which principal payments would be deferred, and during which extensions might be granted to distressed borrowers.

" 'In the same act Congress set up the Agricultural Adjustment Administration, and it was the thought of Congress that this administration would be effective in the restoration of normal farm conditions. Unfortunately the prices for farm products have not recovered, the purchasing power of the farmer's dollar remaining roughly 25 percent below normal. In certain sections this has resulted in great difficulty in borrowers meeting the payments on their loans.' "

Louis J. Taber, National Grange Master, deplores the Goss resignation and thinks it presages bad days ahead for farm lending:

It Was a Shock

"The announcement came as a shock to the friends of organized agriculture. During a period of 20 years, Mr. Goss has served successively as an officer of a local Farm Loan Association, as director of a Federal Land Bank, and finally as Land Bank Commissioner. In all these positions, Mr. Goss has always and at all times sought to develop a sound and constructive farm loan system, co-operative in character and capable of rendering the largest possible service to the farmer borrower.

"As Land Bank Commissioner he has been tireless in his efforts to improve the system, to increase its service to borrowers and to protect the interests of the public as well. He has resisted at all times political pressure on the one hand, or those who would follow unsound methods on the other.

"His dismissal—for that in reality is the proper term for his resignation—is not only a great loss to the Farm Loan System, but an irreparable loss to American agriculture. Mr. Goss has served for a quarter of a century in various farm organizations and has the unqualified respect and esteem of literally millions of people, who will keenly regret this treatment of a conscientious, tireless and faithful public servant."

Goss himself said that:

"For 25 years I have been doing what I could to help build a farmer-managed co-operative credit system based on personal integrity, a proper selection of risks, and joint responsibility. These principles, honestly followed, will cut losses to a minimum and thus assure the cheapest money and best terms available. While not everybody can be served directly by such a system, it acts

as a pace maker and controls, in large measure, the rates and terms of all farm mortgage lenders.

"Now the distinct tendency is toward a type of so-called credit in which personal responsibility is denied, loans are made to everybody, no adequate margin of safety is provided, and the government pays the loss whenever the borrower wants to quit paying.

"I suppose my leaving the FCA has its origin in the sharp conflict between these two basic ideas.

Advice to Farmers

"I hope the foundations of a sound credit system have been so firmly laid that they will withstand the efforts being made in this election year to use it for political purposes. Farmers should never forget that lending them deeper into debt is no substitute for lack of income, and that under sound farm conditions, with fair prices, mortgage credit ceases to be a grievous problem.

"Through 23 years of sound operation they have built up an independent credit standing almost equal to that of the government itself, and they should not lightly surrender this co-operative credit system in order to embark on experiments in 'socialized credit.'

"To ask them to do so is comparable to asking commercial banks to meet the unemployment situation because they have plenty of money to lend. To require them to do so by regulation or legislation in the face of their outspoken opposition is reprehensible."

Goss went on to explain his views more fully:

"To meet this situation the FCA has developed various forms of extensions as aids to distressed farmers; but the fact remains that net farm income is still far below normal and there is a great deal of farm distress.

"There is a certain element in the Department of Agriculture that has felt that the answer is to scale down loans, abolish personal responsibility, and take other steps which would result in serious loss to our co-operative credit system.

"I have felt that the answer lay in facing the fact that the Triple A program has failed to restore normal farm conditions and that the real problem was a fair price for farm products. Any effort at this time to abandon the concept of normal values and adjust loans to a lower income level is not only an acknowledgment of failure to secure adequate prices for farmers, but it is advocating the establishment of lower price levels and lower standards for agriculture than those which prevailed under normal conditions.

"I feel that farmers should resist this movement with every ounce of their energy. The percentage of the national income accruing to agriculture has been steadily decreasing and any willingness to accept these standards means a decadent agriculture. I think it is but natural that these changes should come about in an election year when it seems politically necessary to divert the farmers' attention from the failure of the Triple A program by promising softer credit, an increased subsidy in interest rates, and the abolition of personal responsibility, so that any borrower could walk out and leave his loss to his fellow borrowers or to the Federal government. The honest answer does not lie in making it possible for farmers to abandon their farms without personal liability, but it lies in a farm program which will enable them to keep their farms and conduct them profitably."

National Grange concludes:

"There can be no doubt that Mr. Goss is on the right track when he says that the proper solution of the ills afflicting agriculture does not lie in running the farmer deeper and deeper into debt and giving him 'soft credit.' The proper solution, as Mr. Goss indicates, will be found in pursuing policies that will restore the agricultural price level and make the farmer once more a solvent, independent and self-respecting citizen.

"The fact of the matter is that during recent years the cash income of agriculture has been about $2,500,000,000 less annually than during the five-year period from 1925 to 1929, both inclusive, when the figure stood at ten billion dollars. In the meantime the population of the country has increased to the extent of about 10,000,000. If farm income had increased in the same proportion as our population, the cash returns received by agriculture should now be approximately a billion dollars more than in 1929.

"Under such conditions, it would not be necessary to follow the unsound policies now advocated by the administration to save the farmers from foreclosure proceedings and bankruptcy.

Independent FCA

"In the meantime, Senators Gillette, of Iowa; Hatch, of New Mexico; Truman, of Missouri; Mead, of New York, and Miller, of Arkansas, together with Congressman Kleberg, of Texas, have sponsored a bill to restore the independent status of the FCA under a bi-partisan board of five members, with the Secretary of Agriculture serving in an ex-officio capacity. This bill has the full support of the National Grange, the American Farm Bureau Federation, the National Council of Farmer Co-operatives, the American National Live Stock Association, and the National Wool Growers Association. Efforts will be made to secure the enactment of this bill before the close of the present session of Congress.

"Coming back to Mr. Goss, as is well known, he was for many years Master of the Washington State Grange, as well as the chairman of the executive committee of the National Grange. Before coming to Washington, he was a director of the Federal Land Bank at Spokane.

The Goss Record

"When the legislation establishing the Farm Credit Administration was being drafted, in 1933, Mr. Goss made so many helpful suggestions and showed such a complete understanding of the credit needs of agriculture and the farm credit structure as it then existed, that he was urged by Henry Morgenthau, who became the first Governor of the FCA, to accept appointment as Commissioner of the Federal Land Banks. In this capacity, he made an outstanding record, of which he and all members of the Grange may well feel proud."

"The USHA bill must be passed." That is the message now being circulated on authority of the White House. This is the bill that just preceded the Federal Home Loan Bank measure. Both carry House Banking and Currency Committee Steagall's name, and both were reported out with bare majorities last year. The USHA bill is designed to double the lending capacity of the United States Housing Authority. There were many critics, and discussion was most pointed. It was hoped that some of the criticism would die down during the many months that have passed. The opponents of the measure charge that it will put the Government in the low income housing business to such an extent that it will be practically impossible to come out with any returns for the Treasury. With election fights ahead, the proponents of the measure say that it will be politically inadvisable to vote against it. That's what they are counting on now for passage.

—The American Banker.

How Should Real Estate Be Valued for Tax Purposes?

We're Paying Property Taxes Under a System That Hasn't Changed Materially in More Than 600 Years, Is This View

By IVAN A. THORSON

A DRASTIC change must be made in our local tax system if we shall hope to conserve our most important tax base—real property.

While constitutions and statutes in most states call for a "general property tax", a tax supposedly embracing tangible and intangible real and personal property, our local tax has become practically a *tax on real estate.*

In contemplating needed changes in our local tax structure, we have two distinct problems:

PROBLEM NUMBER 1 calls for an adjustment in our tax base so that the tax burden may be more equitably distributed among the various ownerships of real property.

PROBLEM NUMBER 2 calls for an adjustment of taxes as between real estate and other forms of taxable wealth.

I am chiefly concerned with the first problem here.

The first problem is obviously one of proper valuation. Where the subject is brought up at all, the writer usually confines himself to expressing an opinion as to the *type or kind of value* that should be sought in an appraisal of real property for tax purposes. Some strongly advocate that "market value" alone should be the basis for taxing real estate. Others declare that "market value of land" is a "meaningless and delusive" term, and therefore not a proper base on which to predicate taxation.

For instance, Dr. Simeon E. Leland, Professor of Economics at Chicago University, says:

> "Economists have grown weary pointing out that nothing has intrinsic value; that the worth of a goods is its value in exchange, meaning merely the price it will fetch in a market."

On the other hand, Dr. James Bonbright, Professor of Finance, Columbia University, says:

> "The law should abandon in words, as it has generally abandoned in fact, that *market value* constitutes the proper basis of tax assessment."

THE first part of this scholarly discussion of the background of property taxation is concerned with some of the theories advanced in connection with it. The author takes up the cost-is-value theory, the Ricardian Land Value theory and others. All this may seem at first glance like something taken from an economics text book; yet with so many sacrosanct theories of the past being questioned today it is not out of place to review, as Thorson does here, some of the essential points in the economics of property taxation. Mr. Thorson is Educational Director of the Realty Research Bureau of Los Angeles and spoke at the National Real Estate Tax Conference.

Other "schools of thought" hold that capitalized income or utility of real property alone form the proper tax base. Land, they say, is a capital good, and, as Professor Irving Fisher of Yale, says:

> "The value of any capital good is dependent upon the income it produces. The value of *any* item is the discounted value of its services".

Then we have a considerable number who call themselves practical *evaluators,* who advocate basing value chiefly on cost of constructing the improvements and of acquiring the land.

Before any improvement in the conglomerate methods now in vogue can be hoped for, some common understanding must be arrived at, *first,* as to what *type* of value should be sought, whether a market value or a utility value; and, *secondly,* the *method* or technique which should be employed to arrive at the particular value sought.

Let us first consider the claims of the "cost-is-value" advocates.

The advocates of basing the value on the cost or expense incurred in acquiring land or constructing improvements are very earnest in their contentions; and strange as it may seem, this is the system employed by most of our assessors in the past. This system is still utilized in the valuation of standard small houses of well-known and generally acceptable design. Most assessors however, are beginning to realize that this procedure falls far short of being adequate where investment and income properties are concerned.

Cost as a creator of value has been advocated largely because of its definiteness. It is a definitely calculable amount, an historic fact, which always remains the same, regardless of the economic fate of the property.

This procedure was fairly equitable in the early days of our history when land and cattle were practically the only forms of wealth. Therefore such property ownership was a fair measure of ability to pay taxes.

As the economic character of our country gradually changed through the development of industry, processing, distributing and other activities became more and more the producers of our wealth. Land, the universal raw material, came to have many other uses besides agriculture and grazing. It is a truism that all land is used for the purpose of creating *time, place* and *form* utility. Through manufacturing processes land was translated into many forms not existing in the country's early history. Improved transportation facilities made these products available to an ever-widening circle of consumers. The constantly increasing influx of people into the cities created huge real estate values to which the owners may have contributed but little. It is also true that nature had endowed some areas of land with greater productivity and

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THE 1940 OFFICE BUILDING

In an article scheduled for publication in our next issue, a well-known authority on real estate financing analyzes the future of mortgage credit and declares the weak spot is in the financing of commercial property. He thinks we need about 12 to 15 billion dollars of commercial real estate credit. His remarks will recall the statement on office buildings of Philip C. Hodill, President of the National Association of Building Owners and Managers, at the tax conference last month:

"Speaking generally the office building is today unable to earn any money whatsoever. The tremendous taxes levied against it for the cost of government is a vital factor in creating this condition. That obviously means that the office building cannot contribute its share to business recovery. It cannot give more employment. It cannot pay returns to its owners so that these people may purchase and thereby help to create good business conditions and it does not pay income taxes to the government because it earns no profit.

"Who owns the office and commercial buildings of the country? Except in a very minor degree, individuals, families and estates of great wealth do not own them as is sometimes supposed. Stockholders and depositors of banks, policy holders of our big insurance companies, share holders of realty companies, railroads, large corporations and the small investor are the real owners of this class of property. It is they who are affected by the economic evils which are today almost universal in the office building industry."

with richer natural resources than other areas.

This gave rise to Henry George's Single Tax theory which held that the value of these unearned increments and of nature's gifts (ore, oil, timber, etc.) could not justly be garnered by anyone claiming private ownership in land. Private ownership, to the full-blooded Single Taxer, is immoral, and where it had been acquired the substance of it should be taken away from such owners by the government by taking all land value above that actually produced by the user and by the employment of the necessary capital used in the development of the land.

"To the Owner the Kernel"

The expression "Let the owner have the shell if we get the kernel", often occurs in the Single Tax literature. Land value, furthermore, was determined by the Land Value Theory of Ricardo who held in substance that all value was created by the employment of labor and necessary capital, and the only value which a user of land is entitled to is the result of the actual amount of labor and cost he expended in the production of such value.

However untenable we may regard the Single Tax theory, of which there are many variants, it has had a powerful influence upon economic thought so far as it concerns land. Ricardo's land value theory is still considered by many of our orthodox economists as the proper method of determining land values. No doubt it has been a strong factor in keeping alive the idea that cost or expenditure as a rule creates value. Applied to goods in the category of personal property, and especially consumption goods, this theory is more or less correct. If a manufacturer cannot get his cost out of his products he will discontinue making them, so cost in his case to a large extent may be regarded as establishing the market value of his goods.

Land, on the other hand, has no production or manufacturing cost. It was here when man came on the scene. Real estate is a fixed capital good, and has to be utilized as it lies. There is no market for yesterday's vacancies. Floor space is the merchandise which an owner of income property has to sell.

* * * *

We are saddled with an outworn local taxation system which has not changed materially for over 600 years, although our social and economic situation has undergone sweeping changes.

The owner of real property in the United States pays an average of *five times as much in real property taxes* as do the owners of property in all the other civilized countries. The homeowner and the farmer, besides participating in every other tax, including state and federal taxes, pay a CAPITAL (ad valorem) tax so far out of proportion to taxes paid by other forms of wealth, and so flagrantly inequitable in character as to jeopardize their economic existence. This is amply evidenced by the staggering and ever-increasing amount of defaulted properties.

England does not tax farms at all and other real estate less than one-third of what we do, though her per capita tax is greater than ours and her per capita debt more than twice as great as ours.

Sweden, where housing conditions are perhaps the best in the world and where there is almost no unemployment, has practically abolished property taxation.

Foreclosures and tax defaults are almost unheard of in these countries.

It makes a tremendous difference whether we pay a tax on the face of a $1,000 note or on the 5 percent income from it. The tax on the face of the note drawing interest at 5 percent would be $50, while the same rate of taxation on the 5 percent income from the note would be $2.50. *The first is twenty times the latter.* Real property is taxed on its face value (ad valorem). In addition it pays a state and federal tax on its income.

As the real property tax has so far been levied with little or no reference to the property's productivity, many businesses are wiped out, because they are compelled to pay a capital (ad valorem) tax on their property holdings though the businesses operated on such properties suffer large losses. For example, a manufacturer of heavy mechanical equipment in Los Angeles lost $40,000 in 1933, and still had to pay a tax amounting to $27,750 on the property used in the operation of his business. A few years later, the property went into the hands of the receiver, although the owner had a property investment of over half a million dollars. The holder of the $200,000 mortgage on the property, who all this time paid not a cent of local taxes on his mortgage, took the property under foreclosure and secured, besides, a deficiency judgment against the owners of the property of over $100,000.

Association ACTIVITIES

★ NEWS OF WHAT'S HAPPENING AMONG MBA MEMBERS AND OUR LOCAL ASSOCIATIONS

MBA AND ALC MEET TO DISCUSS FARM CLINIC

President Byron T. Shutz, Secretary George H. Patterson, and members of our farm committee including Past President S. M. Waters, Frederick P. Champ, and R. O. Deming, Jr., will confer with representatives of the American Life Convention in Kansas City May 15 as to the possibility of this organization and MBA jointly sponsoring a Farm Mortgage Conference. Such a project has been under discussion for some months, and considerable interest has been shown by our farm mortgage members. The pending Jones-Wheeler legislation has heightened interest in such a Conference.

American Life Convention's representatives are W. T. Grant, President, Business Men's Assurance Company; Daniel Boone, President, Midland Life Insurance Company, and W. E. Bixby, President, Kansas City Life Insurance Company. The Association of Life Insurance Presidents has been invited to send representatives.

MBA, under the direction of Past President S. M. Waters, sponsored the first effort of this kind ever undertaken with a farm mortgage conference held at the 1938 Convention in Chicago.

NAME PERRY NEW MBA PUBLICITY DIRECTOR

Everett W. Perry, assistant Director of Publications of the Northwestern University Traffic Institute and the Safety Division of the International Association of Chiefs of Police, will join MBA May 20th as publicity director and assistant to Secretary Patterson, Byron T. Shutz, President, announces.

Mr. Perry is a graduate of the University of Iowa School of Journalism and attended the Loyola University Law School. He was later associated with the United Press Association in Des Moines and Chicago. In his present position he has edited a monthly police journal and written many articles for police magazines and safety publications.

Mr. Perry's association with MBA is only one of several changes in personnel in the headquarters office.

Miss Margaret Frushour, secretary to Mr. Patterson, has resigned. She will be married late this month to Mr. Gustave J. Bordenet. Mr. Bordenet is with the Chicago Daily News. Miss Frushour joined MBA in 1934 and became Mr. Patterson's secretary in 1937. The Mortgage Banker feels that it speaks for the entire MBA membership when it expresses here our best wishes to Miss Frushour.

The vacancy created by Miss Frushour's leaving has been filled by Miss Marjorie Greeley. Miss Marvel Meier has also joined the headquarters staff.

TO DISCUSS PLAN FOR WEST VA. MBA LOCAL

Mortgage interests of Huntington, West Virginia, headed by Paul C. Pancake of the Pancake Realty Co. of that city, will meet May 22 to formulate plans for organizing a local association there. Secretary George H. Patterson will meet with the group. The Association may take the form of a purely local organization or it may be expanded into a state-wide group.

WORLD'S GREATEST FACT

(Continued from page 2)

elderly and middle-aged voters increases to an actual preponderance of total voting strength over youth and men and women in the most productive earning period, there will obviously be no lack of successful appeals to the public purse. The higher the pensions and other forms of income diversion to those past the age of productivity, the less will be left for the younger, more productive people.

When the time is reached, as the statistics show it must be reached, when there is one superannuated citizen to be cared for by each person below the age of retirement, the worker's situation will be about like that of the poor fellow who today has to support his wife's parents as well as his immediate household. We are well on the way to supplanting the hopeful task of caring for the very young with the deadweight burden of caring for the very old.

Perhaps this outline may be too gloomy. Conceivably, the lack of a gain in number may be compensated for by a corresponding gain in living standards. Conceivably, a citizenry awakened to the dangers inherent in a static population may change the immigration laws to permit a less rigidly limited number of new inhabitants from abroad each year. There is even a million-to-one chance that the birth rate may regain vitality.

Against these possibilities, set down the strong sentiment of our people against further immigration and the incontrovertible fact that in all history I can find no instance of a nation or race reversing a birth rate trend. Hitler and Mussolini have truly and clearly seen that a static population is a national disaster, have tried to reverse the trend. Hitler's laws and appeals slowed down the German rate of decrease to a small extent. Mussolini's efforts seem almost to have speeded the Italian rate of decrease.

To specialists in vital statistics, the most interesting and most promising effort along this line is that being quietly conducted in Sweden, with the lowest birth rate in Europe. Its national leaders are appealing to the population with no coercion or economic bait, but rather on the basis of less selfishness and more patriotism.

The Swedes are an intelligent people, and believe they can rebuild their birth rate to a level that means national growth. If by any chance they succeed, they will have shown Western civilization a way to avoid being swept over the precipice.

MBA members not now readers of Forbes are invited to write for a sample copy. Address: Forbes Magazine, 120 Fifth Avenue, New York.

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